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Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
SES-02 SAA-01 COME-00 EB-08 LAB-04 SIL-01 A-01
OPR-02 SY-05 MCT-02 TRSE-00 OMB-01 AID-05 /096 W
----------001846 071631Z /43
R 071547Z SEP 78
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 5357
INFO AMEMBASSY AMMAN
AMEMBASSY CAIRO
AMCONSUL JERUSALEM

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E.O. 11652: N/A
TAGS: ELAB, IS
SUBJECT: DISCONTENT WITH GOI WAGE POLICY; TEACHERS' STRIKE LOOMS

1. SUMMARY: THE MAJOR ISSUE ON THE CURRENT NATIONAL LABOR SCENE IS THE QUESTION OF PUBLIC SECTOR WAGE INCREASES. THE GOVERNMENT IS STICKING TO ITS ANNOUNCED POLICY OF A 15 PERCENT INCREASE ON TOP OF THE PREVIOUSLY NEGOTIATED COST-OF-LIVING FORMULA. TEACHERS (52,000 ELEMENTARY AND 8,000 HIGH SCHOOL) HAVE ALREADY CALLED A STRIKE FOR SEPTEMBER 11, DEMANDING A MINIMUM OF A 35 PERCENT INCREASE. ENGINEERS, POSTAL WORKERS, DOCTORS AND TAX OFFICE EMPLOYEES ARE GRUMBLING AND DISCUSSING SLOWDOWNS. A GOVERNMENT CAVE-IN TO TEACHERS' DEMANDS BECAUSE OF A STRIKE WOULD HAVE SERIOUS EFFECTS ON WAGE POLICY AND THE DIRECTION THE ECONOMY WILL TAKE DURING THE NEXT YEAR. THIS IS ONE STRIKE THE CIVIL SERVICE COMMISSION AND THE FINANCE MINISTRY THINK THEY HAVE A GOOD CHANCE OF BEATING BECAUSE THE TEACHERS' UNION IS
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ECONOMICALLY WEAK. AT THE SAME TIME, THE TEACHERS, WHO ARE NOTORIOUSLY UNDERPAID, HAVE ONE OF THE BEST CASES FOR FAVORABLE GOVERNMENT TREATMENT. THE BEST INFORMED ESTIMATE IS THAT A COMPROMISE WITH THE TEACHERS WILL BE REACHED IN THE NEXT FEW WEEKS. SUCH A COMPROMISE ON TEACHERS' WAGES AND THOSE OF OTHER PUBLIC EMPLOYEES WOULD NOT TRIGGER THE NEGATIVE CONSEQUENCES DESCRIBED

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IN PARA. 4 FOLLOWING AND WOULD PERMIT THE GOI TO KEEP
ITS ECONOMIC POLICIES REASONABLY INTACT. CONVERSELY,
IF THE GOVERNMENT DOES AGREE TO WAGE INCREASES FOR THE
TEACHERS MUCH ABOVE ITS 15 PER CENT GUIDELINES, THE
DOMINOES IN THE REST OF PUBLIC SECTOR WAGE BARGAINING
WILL FALL HERE ALL AUTUMN AND WINTER. END SUMMARY.
2. THE MAJOR ISSUE ON THE CURRENT NATIONAL LABOR SCENE,
AND INDEED IN GOI ECONOMIC POLICY, IS THE QUESTION OF
PUBLIC SECTOR WAGE INCREASES. THE GOVERNMENT IS STICKING
TO ITS ANNOUNCED POLICY OF A 15 PERCENT INCREASE ON TOP
OF THE PREVIOUSLY NEGOTIATED COST-OF-LIVING FORMULA.
TEACHERS (52,000 ELEMENTARY AND 8,000 HIGH SCHOOL) HAVE
ALREADY CALLED A STRIKE FOR SEPTEMBER 11, DEMANDING A
MINIMUM OF A 35 PERCENT INCREASE. ENGINEERS, POSTAL
WORKERS, DOCTORS AND TAX OFFICE EMPLOYEES, WHILE AWAITING
THE OUTCOME OF THIS BELLWEATHER NEGOTIATION, ARE GRUMBLING
AND DISCUSSING SLOWDOWNS. THE TOP LEADERSHIP OF HISTA-
DRUT, WHICH IS NOT TOTALLY INSENSITIVE TO THE GOI'S IN-
FLATION PROBLEMS, IS TALKING CONFIDENTIALLY ABOUT A
FORMULA WHICH WOULD INCREASE WAGES 25 PERCENT AND STILL
SAVE THE GOVERNMENT'S FACE (THE 15 PERCENT ANNOUNCED,
PLUS THE THREE-WEEKS' ADVANCE ALREADY GRANTED, PLUS A
FEW MORE PERCENTAGE POINTS ON OCTOBER 1), BUT THE IN-
DIVIDUAL UNIONS ARE SAYING THEY ARE NOT INTERESTED.
EDUCATION MINISTER HAMMER INTRODUCED THE CONCEPT OF
PAYING ONE MONTH'S SALARY ADVANCE TO THE TEACHERS AND
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REVIEWING THEIR ENTIRE WAGE STRUCTURE OVER THE NEXT 60
DAYS. ALTHOUGH EVERYONE SEEMS TO AGREE THAT THE TEACHERS
ARE UNDERPAID - EVEN BY ISRAELI STANDARDS - THE CABINET
TURNED DOWN HAMMER'S PROPOSAL AND PRIME MINISTER BEGIN,
IN HIS SPEECH BEFORE LEAVING FOR CAMP DAVID, SAID THE
GOI CANNOT AFFORD TO PAY THE TEACHERS MORE THAN THE
ANNOUNCED 15 PERCENT.

3. IN ANOTHER DEVELOPMENT, THE GOI HAS ANNOUNCED IT
WILL FREEZE PAYMENTS TO MUNICIPAL COUNCILS WHICH, WITH
HISTADRUT'S SUPPORT, HAVE AGREED TO PAY MUNICIPAL
WORKERS MORE THAN THE "ESTABLISHED" 15 PERCENT WAGE
INCREASE.

4. MACROECONOMIC IMPLICATIONS: A GOVERNMENT CAVE-IN
TO TEACHERS' DEMANDS BECAUSE OF A STRIKE WILL HAVE
SERIOUS EFFECTS ON WAGE POLICY AND THE DIRECTION THE
ECONOMY WILL TAKE DURING THE NEXT YEAR. WE SEE THE
FOLLOWING IMMEDIATE EFFECTS IF THE TEACHERS WIN:

-- THE 15 PERCENT LIMIT ON WAGE INCREASES THROUGHOUT THE
PUBLIC SECTOR WILL GO BY THE BOARDS AND HIGHER WAGE

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COSTS WILL DRIVE THE BUDGET FURTHER INTO DEFICIT.
FINANCING A LARGER DEFICIT WILL PUSH THE INFLATION RATE
HIGHER THAN THE NEAR 40 PERCENT GOI ECONOMISTS PRIVATELY
ADMIT TO BE ALREADY LIKELY.

-- THE PRIVATE SECTOR, WHICH HAS CONCLUDED MOST OF ITS
WAGE NEGOTIATIONS THIS YEAR, WILL BE FORCED AT LEAST TO
MATCH THE GOVERNMENT PACKAGE. THE GOI STRATEGY OF
WIDENING THE PRIVATE/PUBLIC SECTOR WAGE GAP IN FAVOR OF
THE PRIVATE SECTOR (NOW AT ABOUT 7 PERCENT) WILL HAVE
FAILED; THERE WILL BE FEWER INCENTIVES IN AN INCREASINGLY
TIGHT LABOR MARKET TO DRAW WORKERS INTO EXPORTING

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ACTION NEA-10

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INDUSTRIES.

-- THE DIRECTION OF GROWTH WILL BE INCREASINGLY SKEWED
TOWARDS INCREASED IN PRIVATE AND PUBLIC CONSUMPTION AND
AWAY FROM INVESTMENT (OTHER THAN HOUSING) AND IMPROVE-
MENT IN THE TRADE BALANCE. OUR LATEST INFORMATION FROM
THE AUTHORITATIVE ISRAEL PRODUCTIVITY INSTITUTE IS THAT
REAL WAGES PER EMPLOYEE POST ROSE 9.4 PERCENT IN CALEN-
DAR 1977, INCLUDING A 14.6 PERCENT INCREASE IN THE PUBLIC
SECTOR. SUBSTANTIAL GROWTH IN REAL WAGES OVER AND ABOVE
THE GOI OFFER AGAIN THIS YEAR WILL STRENGTHEN THE TEN-
DENCY FOR RESOURCES TO BE DIVERTED TO THE GROWING CON-
SUMPTION SECTOR.

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5. GOI POLICY-MAKERS ARE WELL AWARE OF THE EFFECT A SUCCESSFUL TEACHERS' STRIKE WILL HAVE ON THEIR ECONOMIC STRATEGY. WE FIGURE THAT THIS IS ONE STRIKE THE CIVIL SERVICE COMMISSION AND THE FINANCE MINISTRY WILL ATTEMPT TO BEAT. IN A SIMILAR SITUATION IN THE SPRING OF 1977, THEN-FINANCE MINISTER RABINOWITZ GAVE IN TO PUBLIC
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SECTOR WAGE DEMANDS FOLLOWING A SPATE OF STRIKES AND WAS ROUNDLY CRITICIZED BY THE OPPOSITION LIKUD PARTIES.

6. THE QUESTION IS HOW HARD AND HOW LONG EACH SIDE WILL FIGHT. SHALOM LEVIN, HEAD OF THE LARGEST TEACHERS' UNION, SAID HIS PEOPLE DIDN'T WANT TO STRIKE BUT WILL NOW TURN THE STRIKE INTO A TEST OF NERVES AND STRENGTH. THE TEACHERS' UNION IS NOT, HOWEVER, IN A POSITION TO WITHSTAND A LONG STRIKE. ITS STRIKE FUND IS NOT PARTICULARLY LARGE AND ITS MEMBERS ARE NOT AFFLUENT INDIVIDUALLY. THE GOVERNMENT, ON THE OTHER HAND, CANNOT ACCEPT A PROLONGED PERIOD WITH THE SCHOOLS OF THE NATION CLOSED. THE BEST INFORMED ESTIMATE AT THIS POINT IS THATEITHER JUST BEFORE THE SEPTEMBER 11 DEADLINE OR BY THE MID-OCTOBER JEWISH HOLIDAYS SOME SORT OF COM-PROMISE WILL BE REACHED WHEREBY THE TEACHERS WILL RE-CEIVE A SMALL PAYMENT, PERHAPS TWO WEEKS' SALARY IN ADVANCE, PLUS A PROMISE OF GOVERNMENTAL REVIEW OF THE ENTIRE TEACHERS' SALARY SCALE, IN EXCHANGE FOR A RETURN TO WORK.

7. SUCH A COMPROMISE ON TEACHERS' WAGES AND THOSE OF OTHER PUBLIC EMPLOYEES WOULD NOT TRIGGER THE NEGATIVE CONSEQUENCES DESCRIBED IN PARA 4 ABOVE AND WOULD PERMIT THE GOI TO KEEP ITS ECONOMIC POLICIES REASONABLY INTACT. CONVERSELY, IF GOVERNMENT DOES AGREE TO WAGE INCREASES FOR THE TEACHERS MUCH ABOVE ITS 15 PERCENT GUIDELINES, THE DOMINOES IN THE REST OF PUBLIC SECTOR WAGE BARGAINING WILL FALL HERE ALL AUTUMN AND WINTER.
8. HISTADRUT SECRETARY-GENERAL MESHEL AND FINANCE MINISTER EHRLICH MET ON SEPTEMBER 6 TO DISCUSS PUBLIC SECTOR WAGE POLICY. NO AGREEMENTS WERE REACHED, BUT THEY ANNOUNCED THAT NEGDTIATIONS BY THEIR DEPUTIES WILL
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CONTINUE. VIETS

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Disposition Approved on Date:
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